

**REPORT OF THE AUDIT OF THE
FORMER ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ELLIOTT COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the former Elliott County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$7,142 from the prior year, resulting in excess fees of \$7,383 as of December 31, 2008. Revenues decreased by \$64,726 from the prior year and expenditures decreased by \$71,868.

Report Comments:

- | | |
|---------|---|
| 2008-01 | The Former County Clerk Should Eliminate The \$13,087 Deficit In Her 2008 Fee Account |
| 2008-02 | The Former County Clerk Owes \$5,893 Of State Retirement Withholdings From Her 2008 Fee Account |
| 2008-03 | The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets |
| 2008-04 | The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts |
| 2008-05 | The Former County Clerk Should Have Prepared An Annual Settlement |
| 2008-06 | The Former County Clerk Should Have Prepared Franchise Tax Bills |
| 2008-07 | Delinquent Tax Reports Were Not Properly Prepared |
| 2008-08 | The Former County Clerk Should Not Have Spent In Excess Of The Budget |
| 2008-09 | The Former County Clerk Should Have Taken Action For Uncollected Returned Checks |
| 2008-10 | The Former County Clerk Should Have Properly Prepared And Timely Submitted Quarterly Financial Reports To The Department For Local Government |
| 2008-11 | The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting |
| 2008-12 | The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations |

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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APPENDIX A - FORMER COUNTY CLERK'S RESPONSES



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Blair, Elliott County Judge/Executive
The Honorable Reeda Ison, Former Elliott County Clerk
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Elliott County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable David Blair, Elliott County Judge/Executive
 The Honorable Reeda Ison, Elliott County Clerk
 The Honorable Shelia Blevins, Elliott County Clerk
 Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2009 on our consideration of the former Elliott County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2008-01 The Former County Clerk Should Eliminate The \$13,087 Deficit In Her 2008 Fee Account
- 2008-02 The Former County Clerk Owes \$5,893 Of State Retirement Withholdings From Her 2008 Fee Account
- 2008-03 The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets
- 2008-04 The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts
- 2008-05 The Former County Clerk Should Have Prepared An Annual Settlement
- 2008-06 The Former County Clerk Should Have Prepared Franchise Tax Bills
- 2008-07 Delinquent Tax Reports Were Not Properly Prepared
- 2008-08 The Former County Clerk Should Not Have Spent In Excess Of The Budget
- 2008-09 The Former County Clerk Should Have Taken Action For Uncollected Returned Checks
- 2008-10 The Former County Clerk Should Have Properly Prepared And Timely Submitted Quarterly Financial Reports To The Department For Local Government
- 2008-11 The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting
- 2008-12 The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Elliott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
 Auditor of Public Accounts

July 30, 2009

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State - Revenue Supplement	\$	60,610
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State Fees For Services		2,253
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	163,375
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Usage Tax		200,408
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Tangible Personal Property Tax		354,018
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Other-

Marriage Licenses		1,988
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Deed Transfer Tax		8,983
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Delinquent Tax	51,670	780,442
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	5,377	
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Real Estate Mortgages	6,871	
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Chattel Mortgages and Financing Statements	15,491	
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Powers of Attorney	270	
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All Other Recordings	13,194	
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Charges for Other Services-

Candidate Filing Fees	220	
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Notary	399	
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Copywork	1,376	43,198
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Other:

Postage	8	
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Miscellaneous	143	
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Funds Short	(183)	
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VTR's	80	48
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Interest Earned		111
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Total Revenues		886,662
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 112,013

Usage Tax 194,336

Tangible Personal Property Tax 130,148

Licenses, Taxes, and Fees-

Delinquent Tax 7,557

Legal Process Tax 7,010

Affordable Housing Trust 9,778 \$ 460,842

Payments to Fiscal Court:

Tangible Personal Property Tax 44,398

Delinquent Tax 7,655

Deed Transfer Tax 7,824 59,877

Payments to Other Districts:

Tangible Personal Property Tax 166,163

Delinquent Tax 33,644 199,807

Payments to Sheriff

2,895

Payments to County Attorney

7,240

Operating Expenditures:

Personnel Services-

Deputies' Salaries 30,000

Part-Time Salaries 11,512

Employer's Paid Health Insurance 6,698

2007 State Withholding Taxes 2,786

Other Charges-

Printing and Binding 1,320

Office Supplies 8,271

Conventions and Travel 2,460

Dues 300

Postage 1,761

Labor 200

Election Record Books 2,520

Telephone 1,525

Checks 313

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Miscellaneous	\$	2,357	
Copier Rental		5,291	
Refunds		1,589	
Borrowed Money		4,000	
2005 Training Incentive Benefit		3,194	
Office Equipment		2,627	
Notary		20	\$ 88,744

Total Expenditures \$ 819,405

Less: Disallowed Expenditures

2003 Bank Loan Reimbursement to Reeda Ison	(4,000)
2005 Training Incentive Benefit	(3,194)
2007 Week #48 License Fees	(865)
2007 State Tax Withholdings	(2,786)
Employee Vacation Pay	(1,500)
Undocumented Expenditures	(3,415)

Total Disallowed Expenditures (15,760)

Total Allowable Expenditures 803,645

Net Revenues 83,017

Less: County Clerk's Salary 68,509

Excess Fees 14,508

Less: Expense Allowance 3,600

Training Incentive Benefit 3,525 7,125

Excess Fees Due County for 2008 \$ 7,383

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. The Schedule Of Excess Of Liabilities Over Assets is included as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Elliott County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former Elliott County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Leases

- A. On August 18, 2006 the Office of the County Clerk entered into a lease agreement with Toshiba Financial Services for a copier. The lease agreement required monthly payments of \$135 for 36 months. The County Clerk made the final payment on this lease in August 2008. The lease balance at December 31, 2008 was \$0.
- B. On April 29, 2008 the Office of the County Clerk entered into a lease agreement with Cannon Financial Services for a copier. The lease agreement requires monthly payments of \$223 for 60 months. As of December 31, 2008, the Office of the County Clerk was not in substantial compliance with terms of the lease agreement. The lease balance at December 31, 2008 was \$11,864.

Note 5. Subsequent Events

On April 30, 2009, Reeda Ison resigned her position as County Clerk of Elliott County. On May 26, 2009, Ms. Ison pled guilty to 20 counts of misapplication of entrusted property and 20 counts of official misconduct. Ms. Ison was sentenced to pay restitution of \$27,964 and twelve months imprisonment, amended to supervised probation on the condition that Ms. Ison follow terms of her plea. Ms. Ison was also barred from holding any public office.

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2008

Assets

Cash in Bank	\$ 39,839
Deposits in Transit	<u>9,314</u>
Total Assets	49,153

Liabilities

Paid Obligations:

Outstanding Checks	\$ 48,932
Bank Service Charges	<u>32</u>

Total Paid Obligations	\$ 48,964
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Unpaid Obligations:

Kentucky Retirement Systems-	
Employee Withholdings	5,893
Elliott County Fiscal Court-	
Excess Fees - 2008	<u>7,383</u>

Total Unpaid Obligations	<u>13,276</u>
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Total Liabilities	<u>62,240</u>
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Total Fund Deficit as of December 31, 2008	<u><u>\$ (13,087)</u></u>
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Blair, Elliott County Judge/Executive
The Honorable Reeda Ison, Former Elliott County Clerk
The Honorable Shelia Blevins, Elliott County Clerk
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Elliott County Clerk for the year ended December 31, 2008, and have issued our report thereon dated July 30, 2009. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Elliott County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-11 and 2008-12 to be a significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Elliott County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, and 2008-10.

The former Elliott County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former Elliott County Clerk's responses, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Elliott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 30, 2009

COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

2008-01 The Former County Clerk Should Eliminate The \$13,087 Deficit In Her 2008 Fee Account

Test procedures revealed \$15,760 in expenditures not considered allowable expenses of a County Clerk's office. In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Additionally, amounts due from prior years should not be paid from the current fee account. Expenditures from the former County Clerk's 2008 fee account not considered allowable:

- \$4,000 for a 2003 bank loan reimbursement to the former County Clerk has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$3,194 for the 2005 training incentive payment to the former County Clerk has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$865 for the 2007 week #48 License Fees has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$2,786 for 2007 state tax withholdings has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$1,500 for 2008 employee vacation pay has been disallowed because the former County Clerk did not maintain adequate documentation of payroll that would have allowed us to determine the employee was entitled to be paid for vacation pay.
- \$3,145 for 2008 operating expenses has been disallowed because the former County Clerk did not maintain adequate documentation that would have allowed us to determine the expenditures were in compliance with Funk v. Milliken.

As a result of these disallowed expenditures, the former County Clerk has a deficit of \$13,087 in her official account as of December 31, 2008. We recommend the County Clerk's office only expend fees of the office for allowable expenditures. We also recommend the former County Clerk deposit personal funds of \$13,087 to eliminate the deficit. Once the former County Clerk deposits these personal funds, we recommend she pay any outstanding liabilities still due from her 2008 account, which includes \$7,383 due the Elliott County Fiscal Court for excess fees and \$5,893 due to the Kentucky Retirement System for retirement withheld from employees. The difference between the deficit and the disallowed expenditures is due to 2009 funds being deposited into the 2008 fee account by the former Clerk. These 2009 funds will be handled in the 2009 fee audit as disallowed expenditures.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

Auditor's Reply: Our audit documentation supports comments and recommendations included in this report. We stand by amounts reported in our audit. We provided an opportunity for the former County Clerk to meet with us to review the exit conference findings. The former County Clerk declined to meet with us and asked that we mail the exit conference to her.

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-02 The Former County Clerk Owes \$5,893 Of State Retirement Withholdings From Her
2008 Fee Account

Payroll testing revealed the former County Clerk did not pay retirement withholdings or matching retirement for calendar year 2008. Payroll testing indicates the former County Clerk properly deducted and withheld retirement. However, amounts deducted and withheld were not paid to authorities. The Elliott County Fiscal Court paid the matching retirement on behalf of the former County Clerk, but there is no evidence that amounts deducted and withheld have been paid. The former County Clerk owes \$5,893 to the Kentucky Retirement Systems for payroll retirement withholdings for her office for the period January 1, 2008 through December 31, 2008. We recommend the County Clerk's office pay withholdings in a timely manner as required by statute.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

2008-03 The Former County Clerk Should Have Complied With The County Payroll Ordinance
And Should Have Maintained Proper Payroll Records And Timesheets

In June 2007, the Elliott County Fiscal Court approved an ordinance requiring the Elliott County Clerk to pay wages for herself and her staff to the Elliott County Fiscal Court so that proper withholdings can be paid to Kentucky Retirement System and to the Internal Revenue Service. The ordinance was effective from and after July 1, 2007. However, the former County Clerk did not comply with the county payroll ordinance. The former County Clerk prepared and paid her own payroll during calendar year 2008 and did not submit any reports to the fiscal court. The former County Clerk's failure to comply with the county payroll ordinance and her failure to submit reports to the fiscal court resulted in employer's matching fringe benefits not being paid to authorities.

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-03 The Former County Clerk Should Have Complied With The County Payroll Ordinance
And Should Have Maintained Proper Payroll Records And Timesheets
(Continued)

KRS 337.320 requires all employers to keep a record of (a) the amount paid each pay period to each employee and (b) the hours worked each day and each week by each employee. However, the former County Clerk did not maintain proper payroll records. The former County Clerk did not provide evidence of maintaining a payroll ledger recording the amounts paid each pay period to each employee, a record of hours worked each day and each week for all employees, or copies of W-2 forms supporting payroll expenditures. Further, the former County Clerk did not pay all employees' withholdings to authorities. There is no evidence the former County Clerk paid employees' retirement withholdings or employer's retirement matching to the retirement system. The Elliott County Fiscal Court has subsequently paid employer's retirement matching to the state but employees' retirement withholdings have not been paid. The former County Clerk paid employees' withholdings for state, federal, and FICA taxes. However, the former County Clerk did not pay employer's matching FICA to the federal government. As of audit date, employer's matching FICA has not been paid. Finally, the Elliott County Clerk's office received notice that copies of W-2 forms for 2008 have not been submitted to the Kentucky Department of Revenue.

We recommend the former County Clerk resolve the unpaid employees' retirement withholdings and unpaid employer's matching FICA and submit copies of W-2 forms to the Kentucky Department of Revenue. We recommend the County Clerk's office comply with KRS 337.320 by maintaining proper and complete payroll records. We also recommend the County Clerk's office comply with Elliott County Fiscal Court's payroll ordinance.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

Auditor's Reply: Our audit documentation includes a letter dated June 17, 2009 that indicates the 2008 Wage and Tax Statements (Form W-2) have not been received by the Kentucky Department of Revenue.

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-04 The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts

Our audits indicate the County Clerk has unresolved deficits in six of the seven years preceding 2008. The following is a recap of the years and amounts of the deficits, along with a brief description of the causes:

- 2007 - \$ 5,811, primarily caused by unpaid payroll withholdings
- 2006 - \$14,352, primarily caused by unpaid payroll withholdings
- 2005 - \$ 9,255, primarily caused by unpaid tangible personal property taxes
- 2004 - \$ 6,753, primarily caused by unpaid delinquent property taxes
- 2002 - \$ 9,636, primarily caused by unpaid tangible personal property taxes
- 2001 - \$ 8,476, primarily caused by unpaid tangible personal property taxes

The total of the unresolved deficits is \$54,282 and is owed to the Internal Revenue Service, State, Elliott Fiscal Court, and other Elliott County taxing districts. The former County Clerk was indicted on 20 charges of official misconduct and 20 charges of misapplication of entrusted property relating to these deficits and has subsequently pled guilty to all charges. The former County Clerk's guilty plea included an agreement to pay restitution in the amount of \$27,964. However, this restitution has not yet been paid. We recommend the former County Clerk eliminate these deficits by paying restitution as agreed to by court order. We will continue to report on these unresolved deficits until restitution has been paid in full.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

2008-05 The Former County Clerk Should Have Prepared An Annual Settlement

KRS 64.152 requires County Clerks to prepare an annual settlement and present the annual settlement to the fiscal court by March 15 of each year. The annual settlement should be a complete statement for the preceding calendar year of all funds received by the office for official services and of all expenditures of the office, including the County Clerk's salary, compensation of deputies, and reasonable expenses. At the time of presentation to the fiscal court, KRS 64.152 also requires county clerks to pay to the fiscal court any excess fees of the office. Furthermore, KRS 424.220 requires County Clerks to prepare an annual financial statement each year. The former County Clerk did not prepare an annual settlement for 2008 as required. Since no settlement has been prepared, it has not been presented to the fiscal court. We recommend the County Clerk's office comply with KRS 64.152 and KRS 424.220 by preparing an annual settlement, and presenting it to the fiscal court.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

Auditor's Reply: Per KRS 64.152 it is the County Clerk's responsibility to prepare and present the annual settlement. The Auditor of Public Accounts' office is not involved in this process.

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-06 The Former County Clerk Should Have Prepared Franchise Tax Bills

KRS 133.220 notes the County Clerk is the local official responsible for the preparation of property tax bills. KRS 136.180 requires the County Clerk to prepare franchise tax bills and forward the bills to the proper collecting officer. We can find no evidence the former County Clerk prepared franchise tax bills as required by statutes. Franchise taxes were assessed for Elliott County and franchise taxes were collected by the Sheriff's office. However, the Sheriff's office prepared the franchise tax bills. Preparation of franchise tax bills is the responsibility of the County Clerk, as stated above. We recommend the County Clerk's office comply with KRS 133.220 and KRS 136.180 by preparing franchise tax bills and forwarding them to the Sheriff for collection.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

Auditor's Reply: Even though the Sheriff's office has been preparing the bills, per KRS 136.180 it is the responsibility of the County Clerk to prepare franchise tax bills. This comment has been included in each of the published audits since calendar year 2006.

2008-07 Delinquent Tax Reports Were Not Properly Prepared

The former County Clerk made errors in reporting delinquent tax collections. Amounts reported as collections on delinquent tax reports were higher than amounts recorded in the receipts ledgers. We could trace amounts recorded in the receipts ledgers to supporting documentation, indicating the receipts ledgers are accurate. We could not trace all amounts reported on the delinquent tax reports to supporting documentation, indicating the delinquent tax reports were not properly prepared. Our testing indicates the former County Clerk erroneously overstated collections on the delinquent tax reports. Some items had already been included on previous delinquent tax reports and other items had not been collected at all. Delinquent tax payments to the districts are based upon amounts reported on the delinquent tax reports. Since the delinquent tax reports were overstated, the former County Clerk overpaid delinquent taxes to the districts. We did not determine the extent of the overpayments because we did not correct the delinquent tax reports. The former County Clerk should correct errors on delinquent tax reports, determine overpayment refund amounts due from the districts, and collect overpayment refunds due from the districts.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

Auditor's Reply: Delinquent Tax Reports provided by the former County Clerk indicate reporting errors such as items that had already been included on previous delinquent tax reports and other items that had not been collected at all.

ELLIOTT COUNTY
REEDA ISON, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-08 The Former County Clerk Should Not Have Spent In Excess Of The Budget

We note that the Department for Local Government (DLG) requires County Clerks to submit a budget. The Elliott County Fiscal Court approved a budget for the County Clerk's office. However, the former County Clerk did not operate within that budget. The former County Clerk spent \$54,499 more than was budgeted. Several accounts were under budget, but accounts that were over budget brought the total overspending to \$54,499. We recognize that spending in categories for state reports (Motor Vehicle Usage Tax, Tangible Personal Tax, Delinquent Tax, etc.) is driven by collections and that the Clerk has statutory responsibility to make payments to districts. However, we note that the former County Clerk should have obtained budget amendments when collections and distributions exceeded those allowed in the budget. We recommend the County Clerk's office operate within approved budgets or obtain budget amendments as needed.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

2008-09 The Former County Clerk Should Have Taken Action For Uncollected Returned Checks

We noted returned checks from customers totaling \$1,400 for calendar year 2008. Of this amount, the former County Clerk collected \$237, leaving \$1,163 in uncollected returned checks from customers. The former County Clerk did not provide documentation of her attempts to collect funds due from customers for returned checks. The former County Clerk could have voided customer transactions if the customers' checks were returned for non-sufficient funds. For example, if a customer wrote a check for payment of delinquent taxes and that customer's check was returned for non-sufficient funds, the former County Clerk could have marked that customer's taxes as unpaid. Further, the former County Clerk could have requested the County Attorney take action to collect returned checks. The former County Clerk should have taken action to collect returned checks and should have maintained documentation of those efforts.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

STATE LAWS AND REGULATIONS (Continued):

2008-10 The Former County Clerk Should Have Properly Prepared And Timely Submitted Quarterly Financial Reports To The Department For Local Government

The Department for Local Government (DLG) requires each County Clerk to submit quarterly reports to DLG by the 30th day following the close of each quarter (April 30, July 30, October 30 and January 30). Failure to timely submit quarterly financial reports to DLG could result in a penalty being assessed against the County Clerk. The former County Clerk submitted her 1st and 2nd quarterly reports on August 29, 2008, with corrected versions filed on September 25, 2008. Furthermore, the former County Clerk's quarterly reports were not properly prepared. The former County Clerk failed to report cumulative amounts for each quarter, listing only the current quarter's information on each quarterly report. The former County Clerk also failed to list budget information on the quarterly reports. Finally, the former County Clerk failed to list liabilities on part four of the 4th quarterly (year-end) quarterly report. In order to be useful, quarterly reports should be properly prepared and should include all information. The former County Clerk should have referred to the Budget Manual provided by DLG for guidance in preparing quarterly reports. We recommend the County Clerk's office take more care in preparing quarterly reports and assure that quarterly reports are properly prepared and submitted in a timely manner.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2008-11 The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting

We noted several issues of non-compliances that indicate internal control deficiencies related to financial reporting. For 2008, the County Clerk did not prepare an annual settlement, did not properly prepare quarterly financial reports, and did not submit quarterly financial reports to the Department for Local Government (DLG) in a timely manner. We believe there are adequate internal control procedures to assure accurate preparation and timely submission of financial reports. However, there does not appear to be a sufficient control consciousness within the organization to assure compliance with financial reporting requirements. We have included audit report comments related to financial reporting noncompliances in each audit report since calendar year 1999. However, the County Clerk has not exercised oversight that would have caused an annual settlement to be prepared and that would have caused the quarterly financial reports to be properly prepared and timely submitted to DLG in a timely manner. We believe the internal control deficiencies related to financial reporting create more than a likely potential for material misstatement of the financial statements. We recommend the County Clerk's office improve internal control procedures related to financial reporting.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

ELLIOTT COUNTY
 REEDA ISON, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2008
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2008-12 The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations

We noted several internal control deficiencies related to the former County Clerk's office operations. We believe these internal control deficiencies create more than a likely potential for material misstatement of the financial statements.

- The internal control structure lacked a proper segregation of duties. There was a limited staff size, which prevented adequate division of responsibilities. The former County Clerk had statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements.
- The former County Clerk did not routinely compare actual disbursements to the budget.
- The former County Clerk did not maintain sufficient documentation for payroll and operating expenditures.
- The former County Clerk was not sufficiently involved in the day-to-day operations of the office to identify significant departures from established procedures and to exercise adequate oversight of the office.

We recommend the County Clerk's office improve internal control procedures. We present the following suggestions for improvement.

- The County Clerk should recount and deposit cash daily. The County Clerk could document this control process by initialing the deposit ticket.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit ticket, daily checkout sheet, and receipts ledger.
- The County Clerk should document periodic comparisons of daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should document the reconciliation of the bank balance to the general ledger.
- The County Clerk should regularly compare actual disbursements to the budget. Budget amendments should be obtained if necessary.
- The County Clerk should follow control procedures established by the county payroll ordinance.
- The County Clerk should periodically compare expenditures to invoice files to assure that invoice files contain sufficient documentation of operating expenditures.
- The County Clerk should cancel paid invoices to document payment.
- The County Clerk should be involved in the day-to-day operations of the office in order to be able to identify significant departures from established procedures and to exercise adequate oversight of the office.

Former County Clerk Reeda Ison's Response: We have included the former County Clerk's responses as Appendix A with this report.

APPENDIX A - FORMER COUNTY CLERK'S RESPONSES

APA (Rev 11/07)

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

Date: July 30, 2009 (date mailed to Mr. Craft)
 Auditors:
 Auditees: Reeda Ison, Former County Clerk
 Mailed to Paul Craft, Attorney for Ms. Ison

During the course of our audit, we have developed the following comments and recommendations for your review. You are not required to respond to the comments and recommendations. However, we recommend that you provide written responses. Please understand that your responses will be printed verbatim in the audit report. You have (15) working days to respond to the comments and recommendations. Please return any written responses to the auditors by **Thursday August 20, 2009**. Responses postmarked after that date will not be considered for inclusion in the audit report. If you do not return written responses to the auditors, the audit report will read, "The official did not respond."

1. The Former County Clerk Should Eliminate The \$13,087 Deficit In Her 2008 Fee Account

The former County Clerk has a deficit of \$13,087 in her official account as of December 31, 2008. This deficit is primarily due to disallowed expenditures. Test procedures revealed \$15,760 in expenditures not considered allowable expenses of a County Clerk's office. In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Additionally, amounts due from prior years should not be paid from the current fee account. Expenditures from the former County Clerk's 2008 fee account not considered allowable:

- \$4,000 for a 2003 bank loan reimbursement to the former County Clerk has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account. *Mr. Wright gave me permission to get my money back*
- \$3,194 for the 2005 training incentive payment to the former County Clerk has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account. *We check with Gold before wrote check*
- \$865 for the 2007 week #48 License Fees has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$2,786 for 2007 state tax withholdings has been disallowed because it is an amount due from a prior year and should not have been paid from the current fee account.
- \$1,500 for 2008 employee vacation pay has been disallowed because the former County Clerk did not maintain adequate documentation of payroll that would have allowed us to determine the employee was entitled to be paid for vacation pay.
- \$3,145 for 2008 operating expenses has been disallowed because the former County Clerk did not maintain adequate documentation that would have allowed us to determine the expenditures were in compliance with Funk v. Milliken.

We recommend the County Clerk's office only expend fees of the office for allowable expenditures. We also recommend the former County Clerk deposit personal funds of \$13,087 to eliminate the deficit. Once the former County Clerk deposits these personal funds, we recommend she pay any outstanding liabilities still due from her 2008 account, which includes \$7,383 due the Elliott County Fiscal Court for excess fees and \$5,893 due to the Kentucky Retirement System for retirement withheld from employees.

(F-16)

SOI: As Referenced

Elliott County
 Reeda Ison, Former County Clerk
 Exit Conference
 Calendar Year 2008

B-1 Page 2

Response or Additional Information: According to our records
they are no express fees in
the 2008 fee account to pay
Fiscal Court.

I called Held and got permission from Mr. Leight
before I wrote the check for \$4000. He checked with
the attorney, so he said, before he gave me permission

2. The Former County Clerk Owes \$5,893 Of State Retirement Withholdings From Her 2008 Fee Account

Payroll testing revealed the former County Clerk did not pay retirement withholdings or matching retirement for calendar year 2008. KRS 141.310 directs every employer to deduct and withhold certain amounts from employee pay and KRS 141.330 requires those amounts deducted and withheld to be paid to authorities by the end of the month following the close of each quarter. KRS 141.330(3) states that every employer who fails to withhold or pay withholding to authorities shall be personally and individually liable for amounts withheld. KRS 141.330(4) allows the Commonwealth of Kentucky to place a lien upon all property of any employer who fails to withhold or pay over to authorities sums required to be withheld. Payroll testing indicates the former County Clerk properly deducted and withheld retirement. However, amounts deducted and withheld were not paid to authorities. The Elliott County Fiscal Court paid the matching retirement on behalf of the former County Clerk, but there is no evidence that amounts deducted and withheld have been paid. The former County Clerk owes \$5,893 to the Kentucky Retirement Systems for payroll retirement withholdings for her office for the period January 1, 2008 through December 31, 2008. We recommend the County Clerk's office pay withholdings in a timely manner as required by statute.

Response or Additional Information: my office could (F-53A)
not pay in retirement for 2008,
due to fiscal Court had to pass
Ordinance to allow me to do
this

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-I Page 3

3. The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets

In June 2007, the Elliott County Fiscal Court approved an ordinance requiring the Elliott County Clerk to pay wages for herself and her staff to the Elliott County Fiscal Court so that proper withholdings can be paid to Kentucky Retirement System and to the Internal Revenue Service. The ordinance was effective from and after July 1, 2007. However, the former County Clerk did not comply with the county payroll ordinance. The former County Clerk prepared and paid her own payroll during calendar year 2008 and did not submit any reports to the fiscal court. The former County Clerk's failure to comply with the county payroll ordinance and her failure to submit reports to the fiscal court resulted in employer's matching fringe benefits not being paid to authorities.

KRS 337.320 requires all employers to keep a record of (a) the amount paid each pay period to each employee and (b) the hours worked each day and each week by each employee. However, the former County Clerk did not maintain proper payroll records. The former County Clerk did not provide evidence of maintaining a payroll ledger recording the amounts paid each pay period to each employee, a record of hours worked each day and each week for all employees, or copies of W-2 forms supporting payroll expenditures. Further, the former County Clerk did not pay all employees' withholdings to authorities. There is no evidence the former County Clerk paid employees' retirement withholdings or employer's retirement matching to the retirement system. The Elliott County Fiscal Court has subsequently paid employer's retirement matching to the state but employees' retirement withholdings have not been paid. The former County Clerk paid employees' withholdings for state, federal, and FICA taxes. However, the former County Clerk did not pay employer's matching FICA to the federal government. As of audit date, employer's matching FICA has not been paid. Finally, the Elliott County Clerk's office received notice that copies of W-2 forms for 2008 have not been submitted to the Kentucky Department of Revenue.

We recommend the former County Clerk resolve the unpaid employees' retirement withholdings and unpaid employer's matching FICA and submit copies of W-2 forms to the Kentucky Department of Revenue. We recommend the County Clerk's office comply with KRS 337.320 by maintaining proper and complete payroll records. We also recommend the County Clerk's office comply with Elliott County Fiscal Court's payroll ordinance.

F-53

Response or Additional Information: all W-2 forms
was submitted to the departments
our office did maintain proper
payroll records and was left
in the office at my resignation

SOI: As Referenced

**Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008**

B-1 Page 4

4. The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts

Our audits indicate the County Clerk has unresolved deficits in six of the seven years preceding 2008. The following is a recap of the years and amounts of the deficits, along with a brief description of the causes:

- 2007 - \$ 5,811, primarily caused by unpaid payroll withholdings
- 2006 - \$14,352, primarily caused by unpaid payroll withholdings
- 2005 - \$ 9,255, primarily caused by unpaid tangible personal property taxes
- 2004 - \$ 6,753, primarily caused by unpaid delinquent property taxes
- 2002 - \$ 9,636, primarily caused by unpaid tangible personal property taxes
- 2001 - \$ 8,476, primarily caused by unpaid tangible personal property taxes

The total of the unresolved deficits is \$54,282 and is owed to the Internal Revenue Service, State, Elliott Fiscal Court, and other Elliott County taxing districts. The former County Clerk was indicted on 20 charges of official misconduct and 20 charges of misapplication of entrusted property relating to these deficits and has subsequently pled guilty to all charges. The former County Clerk's guilty plea included an agreement to pay restitution in the amount of \$27,964. However, this restitution has not yet been paid. We recommend the former County Clerk eliminate these deficits by paying restitution to the Attorney General's office as agreed to by court order. We will continue to report on these unresolved deficits until restitution has been paid in full.

(A-5, A-6, A-13)

Response or Additional Information: due to my
unemployment an disability have had
no money to pay this obligation
but will start making payments
as soon as possible.

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 5

5. The Former County Clerk Should Have Prepared An Annual Settlement

KRS 64.152 requires County Clerks to prepare an annual settlement and present the annual settlement to the fiscal court by March 15 of each year. The annual settlement should be a complete statement for the preceding calendar year of all funds received by the office for official services and of all expenditures of the office, including the County Clerk's salary, compensation of deputies, and reasonable expenses. At the time of presentation to the fiscal court, KRS 64.152 also requires county clerks to pay to the fiscal court any excess fees of the office. Furthermore, KRS 424.220 requires County Clerks to publish an annual financial statement in a newspaper within sixty days after the close of the year. The former County Clerk did not prepare an annual settlement for 2008 as required. Since no settlement has been prepared, it has not been presented to the fiscal court and has not been published in a local newspaper. We recommend the County Clerk's office comply with KRS 64.152 and KRS 424.220 by preparing an annual settlement, presenting it to the fiscal court, and publishing the settlement in the local newspaper.

F-21

Response or Additional Information: _____

was
 Suppose to help me close out accounts
 so I could ~~do~~ the annual statement

6. The Former County Clerk Should Have Prepared Franchise Tax Bills

KRS 133.220 notes the County Clerk is the local official responsible for the preparation of property tax bills. KRS 136.180 requires the County Clerk to prepare franchise tax bills and forward the bills to the proper collecting officer. We can find no evidence the former County Clerk is prepared franchise tax bills as required by statutes. Franchise taxes were assessed for Elliott County and franchise taxes were collected by the Sheriff's office. However, the Sheriff's office prepared the franchise tax bills. Preparation of franchise tax bills is the responsibility of the County Clerk, as stated above. We recommend the County Clerk's office comply with KRS 133.220 and KRS 136.180 by preparing franchise tax bills and forwarding them to the Sheriff for collection.

(C-3)

Response or Additional Information: _____

The Sheriff's Dept.
 has always prepared the franchise
 tax bills since I ^{have} been clerk

SOI: As Referenced

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 6

7. The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting

We noted several issues of non-compliances that indicate internal control deficiencies related to financial reporting. For 2008, the County Clerk did not prepare an annual settlement, did not properly prepare quarterly financial reports, and did not submit quarterly financial reports to the Department for Local Government (DLG) in a timely manner. We believe there are adequate internal control procedures to assure accurate preparation and timely submission of financial reports. However, there does not appear to be a sufficient control consciousness within the organization to assure compliance with financial reporting requirements. We have included audit report comments related to financial reporting noncompliances in each audit report since calendar year 1999. However, the County Clerk has not exercised oversight that would have caused an annual settlement to be prepared and that would have caused the quarterly financial reports to be properly prepared and timely submitted to DLG in a timely manner. We believe the internal control deficiencies related to financial reporting create more than a likely potential for material misstatement of the financial statements. We recommend the County Clerk's office improve internal control procedures related to financial reporting.

Response or Additional Information: ^{F-22} *Due to my bookkeeper's sickness my quarterly was late but was mailed.*

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 7

8. The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations

We noted several internal control deficiencies related to the former County Clerk's office operations. We believe these internal control deficiencies create more than a likely potential for material misstatement of the financial statements.

- The internal control structure lacked a proper segregation of duties. There was a limited staff size, which prevented adequate division of responsibilities. The former County Clerk had statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements.
- The former County Clerk did not routinely compare actual disbursements to the budget.
- The former County Clerk did not maintain sufficient documentation for payroll and operating expenditures.
- The former County Clerk was not sufficiently involved in the day-to-day operations of the office to identify significant departures from established procedures and to exercise adequate oversight of the office.

We recommend the County Clerk's office improve internal control procedures. We present the following suggestions for improvement.

- The County Clerk should recount and deposit cash daily. The County Clerk could document this control process by initialing the deposit ticket.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit ticket, daily checkout sheet, and receipts ledger.
- The County Clerk should document periodic comparisons of daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should document the reconciliation of the bank balance to the general ledger.
- The County Clerk should regularly compare actual disbursements to the budget. Budget amendments should be obtained if necessary.
- The County Clerk should follow control procedures established by the county payroll ordinance.
- The County Clerk should periodically compare expenditures to invoice files to assure that invoice files contain sufficient documentation of operating expenditures.
- The County Clerk should cancel paid invoices to document payment.
- The County Clerk should be involved in the day-to-day operations of the office in order to be able to identify significant departures from established procedures and to exercise adequate oversight of the office.

C-6

Response or Additional Information: I did go over the
daily reports to check and see they
was right

SOI: As Referenced

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 8

9. Delinquent Tax Reports Were Not Properly Prepared

The former County Clerk made errors in reporting delinquent tax collections. Amounts reported as collections on delinquent tax reports were higher than amounts recorded in the receipts ledgers. We could trace amounts recorded in the receipts ledgers to supporting documentation, indicating the receipts ledgers are accurate. We could not trace all amounts reported on the delinquent tax reports to supporting documentation, indicating the delinquent tax reports were not properly prepared. Our testing indicates the former County Clerk erroneously overstated collections on the delinquent tax reports. Some items had already been included on previous delinquent tax reports and other items had not been collected at all. Delinquent tax payments to the districts are based upon amounts reported on the delinquent tax reports. Since the delinquent tax reports were overstated, the former County Clerk overpaid delinquent taxes to the districts. We did not determine the extent of the overpayments because we did not correct the delinquent tax reports. The former County Clerk should correct errors on delinquent tax reports, determine overpayment refund amounts due from the districts, and collect overpayment refunds due from the districts.

F-33, F-34, F-35

Response or Additional Information: my office prepared
the tax reports the way I was
showed by the state.

10. The Former County Clerk Should Not Have Spent In Excess Of The Budget

We note that the Department for Local Government (DLG) requires County Clerks to submit a budget. The Elliott County Fiscal Court approved a budget for the County Clerk's office. However, the former County Clerk did not operate within that budget. The former County Clerk spent \$54,499 more than was budgeted. Several accounts were under budget, but accounts that were over budget brought the total overspending to \$54,499. We recognize that spending in categories for state reports (Motor Vehicle Usage Tax, Tangible Personal Tax, Delinquent Tax, etc) is driven by collections and that the Clerk has statutory responsibility to make payments to districts. However, we note that the former County Clerk should have obtained budget amendments when collections and distributions exceeded those allowed in the budget. We recommend the County Clerk's office operate within approved budgets or obtain budget amendments as needed.

Response or Additional Information: due to my book keepers
sickness this was not done.

C-5A

SOI: As Referenced

Elliott County
 Reeda Ison, Former County Clerk
 Exit Conference
 Calendar Year 2008

B-1 Page 9

11. The Former County Clerk Should Have Taken Action For Uncollected Returned Checks

We noted returned checks from customers totaling \$1,400 for calendar year 2008. Of this amount, the former County Clerk collected \$237, leaving \$1,163 in uncollected returned checks from customers. The former County Clerk did not provide documentation of her attempts to collect funds due from customers for returned checks. The former County Clerk could have voided customer transactions if the customers' checks were returned for non-sufficient funds. For example, if a customer wrote a check for payment of delinquent taxes and that customer's check was returned for non-sufficient funds, the former County Clerk could have marked that customer's taxes as unpaid. Further, the former County Clerk could have requested the County Attorney take action to collect returned checks. The former County Clerk should have taken action to collect returned checks and should have maintained documentation of those efforts.

(F-17)

Response or Additional Information: I did turn over
return checks to the county
attorney for collection.

12. The Former County Clerk Should Have Properly Prepared And Timely Submitted Quarterly Financial Reports To The Department For Local Government

The Department for Local Government (DLG) requires each County Clerk to submit quarterly reports to DLG by the 30th day following the close of each quarter (April 30, July 30, October 30 and January 30). Failure to timely submit quarterly financial reports to DLG could result in a penalty being assessed against the County Clerk. The former County Clerk submitted her 1st and 2nd quarterly reports on August 29, 2008, with corrected versions filed on September 25, 2008. Furthermore, the former County Clerk's quarterly reports were not properly prepared. The former County Clerk failed to report cumulative amounts for each quarter, listing only the current quarter's information on each quarterly report. The former County Clerk also failed to list budget information on the quarterly reports. Finally, the former County Clerk failed to list liabilities on part four of the 4th quarterly (year-end) quarterly report. In order to be useful, quarterly reports should be properly prepared and should include all information. The former County Clerk should have referred to the Budget Manual provided by DLG for guidance in preparing quarterly reports. We recommend the County Clerk's office take more care in preparing quarterly reports and assure that quarterly reports are properly prepared and submitted in a timely manner.

(F-22)

Response or Additional Information: my office did prepare
and submitted them to DLG

SOI: As Referenced

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 10

13. Does the former County Clerk have any knowledge of any events occurring subsequent to calendar year 2008 through the present day that may have a material effect on the financial statements?

Response or Additional Information: no

14. ADDITIONAL COMMENTS/QUESTIONS:

ATTACHMENTS: Draft copies of Financial Statement and Deficit Statement

SOI: As Referenced

Elliott County
Reeda Ison, Former County Clerk
Exit Conference
Calendar Year 2008

B-1 Page 11

This audit will be issued as soon as internal review is completed. The APA staff will not contact any official after the date of this exit conference. If any actions occur after this exit conference date, which affect any audit findings, it is the responsibility of the official to provide that information to the APA. Please mail documentation to the following address:

Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601-1871

If you have any questions or concerns regarding this audit, please feel free to contact at (502) 564-5841.

As County Clerk, I acknowledge receiving a copy of the exit conference and the attachments as listed above.

Former County Clerk: 

Reeda Ison Date: 8/17/09

A copy of this exit conference has been mailed to the former County Clerk's attorney for discussion with the former County Clerk.

Auditor: _

Date: 7/30/2009

7-30-2009

